SaskTel

Financial Statements of

DIRECTWEST CORPORATION

December 31, 2010

DirectWest Corporation (DirectWest)

www.directwest.com

DirectWest, a wholly-owned subsidiary of SaskTel, is the exclusive provider of the print, online and mobile SaskTel Phonebooks. For more than 50 years, DirectWest has been bringing buyers and sellers together with the most complete, used and preferred phonebooks in Saskatchewan. Fuelled by the success of the SaskTel Phonebook in print, and the power of the online phonebook at mysask411.com, DirectWest is making it easier for consumers on the go to find local business information with a BlackBerry app, an iPhone app, a desktop gadget for Windows and a desktop widget for Macs. The company continues to help connect buyers and sellers with new and innovative products and services, including mysaskdeals.com, Saskatchewan's first online group buying service. With a head office in Regina and a second office in Saskatoon, DirectWest employs 95 full-time equivalent employees.

President's Message

DirectWest had another strong year in 2010. In an industry where most directory companies experienced decreased revenue and earnings, DirectWest successfully generated growth in both of these areas. Total revenue in 2010 reached $44.5M, with the Saskatchewan operations achieving 4.3% growth. While revenue generated from the mature print product is flattening, growth generated from the new online/digital products and services is increasing at a rate such that overall corporate revenue growth continues. This top line growth, combined with successful cost reduction initiatives, resulted in increased profitability for the company again in 2010. DirectWest also met or exceeded all quality and customer performance targets for the year and achieved an overall business customer satisfaction level of 93%.

DirectWest's focus is to be Saskatchewan's best source to find local businesses, products, people and places. This is being done through a multi-platform approach where buyers and sellers are being brought together through print, online, mobile and other digital mediums such as SaskTel *Max™* Entertainment Services. New product introductions in 2010 included virtual online directories, mobile applications for both BlackBerry and iPhone, desktop applications for personal computers, and Saskatchewan's first online group buying service - mysaskdeals.com. These services, combined with DirectWest's social media initiatives on Facebook and Twitter, have positioned DirectWest as a solutions provider that is "much more than just a phone book company".

In October 2010, DirectWest completed the sale of the AgDealer operations, thereby increasing the company's focus on its Saskatchewan customers.

Looking forward, the directory industry will continue to experience unprecedented change over the next year. Technology will play an increasingly important role, providing growth opportunities for DirectWest as well as additional avenues of competition. The company is focused on maintaining its leadership position in Saskatchewan and expects to achieve modest growth in this market during 2011.

In closing, I would like to once again thank our customers and employees for providing us the strong position from which we anticipate to continue our growth and success in 2011.

Gord Farmer
President & CEO, DirectWest

Adoption of International Financial Reporting Standards

Canadian public companies including Government Business Enterprises (GBEs) will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2011. Effective January 1, 2011, DirectWest Corporation (the Corporation) and its subsidiaries, as GBEs, will adopt IFRS as the basis for preparing consolidated financial statements. The Corporation will also provide comparative data on an IFRS basis, including an opening balance sheet as at the date of transition, January 1, 2010.

The Corporation and its subsidiaries, have substantially finalized an IFRS conversion project including selection of accounting policies and financial statement presentation formats and determination of the most significant impacts of IFRS on processes, systems, internal controls over financial reporting and disclosures, and future financial position and results of operations. As part of the IFRS implementation, the Corporation has made changes to certain processes and systems to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes.

The Corporation has provided preliminary draft reconciliations which present the differences between Canadian Generally Accepted Accounting Principles (Canadian GAAP) and IFRS for the opening statement of financial position as at January 1, 2010, net income and comprehensive income for the year ended December 31, 2010 and the statement of financial position as at December 31, 2010. While these reconciliations do not represent an official adoption of IFRS, they provide an indication of the major differences identified to date, relative to DirectWest's historical financial statements. The possibility exists that the information provided may require adjustment before constituting the comparative information in the first complete set of 2011 IFRS financial statements prepared in accordance with IFRS, because of revisions or changes to standards or interpretations on the application of a particular IFRS, or voluntary changes to IFRS 1: "First Time Adoption of Financial Reporting Standards" exemptions (mandatory exceptions and optional exemptions) or policies as selected by the Corporation.

Consolidated Statement of Financial Position at January 1, 2010
Thousands of dollars

	Note	Canadian GAAP	Mandatory IFRS Adjustments	IFRS
Assets				
Current assets	1,2	$17,843	$13,317	$31,160
Capital assets		553	-	553
Goodwill		226	-	226
Other assets		2,706	-	2,706
		$21,328	$13,317	$34,645
Liabilities and Shareholder's equity				
Current liabilities	1	$12,515	$(3,075)	$9,440
Long-term debt		4,868	-	4,868
Shareholder's equity		3,945	16,392	20,337
		$21,328	$13,317	$34,645

1. Under IFRS the Corporation recognizes directory revenue when each directory is distributed to the public. This revenue was previously recognized under Canadian GAAP in accordance with the contractual terms with advertisers on a monthly basis over the life of the print directory. As a result, current assets increased $18,446,876, current liabilities decreased $3,075,126 and retained earnings increased $21,522,002.

2. In conjunction with the IFRS directory revenue recognition policy, the related publishing costs are required to be recognized when the related directory is distributed to the public. Under Canadian GAAP these expenses were previously deferred and amortized over the life of the related directory. As a result current assets and retained earnings decreased $5,129,189.

Consolidated Statement of Comprehensive Income for the year ended December 31, 2010
Thousands of dollars

	Note	Canadian GAAP	IFRS Adjustments		IFRS
			Mandatory	Other[2]	
Revenues	1	$44,531	$(247)	$-	$44,284
Other income				2,395	2,395
Total Revenue		44,531	(247)	2,395	46,679
Expenses					
Operations		39,117	-	(39,117)	-
Goods and services purchased	3	-	64	30,995	31,059
Salaries, wages and benefits		-	-	8,189	8,189
Depreciation and amortization		304	-	-	304
		39,421	64	67	39,552
		5,110	(311)	2,328	7,127
Other items		2,328	-	(2,328)	-
Interest and related items		241	-	(241)	-
Net finance expense		-	-	241	241
Net earnings		7,679	(311)	-	7,368
Other comprehensive income (loss)		-	-	-	-
Total comprehensive income		$7,679	$(311)	$-	$7,368

1. Under IFRS the Corporation recognized directory revenue when each directory is distributed to the public. This revenue was previously recognized in accordance with the contractual terms with advertisers on a monthly basis over the life of the print directory. This resulted in a reduction of revenue of $247,399.

2. IFRS requires that expenses be classified either by nature or by function for presentation. The Corporation has selected classification by nature. In addition, other reclassifications were required to conform with disclosure requirements for other income and net finance expense.

3. In conjunction with the IFRS directory revenue recognition policy, the related publishing costs are required to be recognized when the related directory is distributed to the public. Under Canadian GAAP these expenses were deferred and amortized over the life of the related directory. As a result goods and services purchased increased $63,658.

Consolidated Statement of Financial Position at December 31, 2010
Thousands of dollars

	Note	Canadian GAAP	Mandatory IFRS Adjustments	IFRS
Assets				
Current assets	1,2	$20,037	$13,140	$33,177
Capital assets		491	-	491
Goodwill		222	-	222
		$20,750	$13,140	$33,890
Liabilities and Shareholder's equity				
Current liabilities	1	$13,458	$(2,941)	$10,517
Long-term debt		4,868	-	4,868
Shareholder's equity		2,424	16,081	18,505
		$20,750	$13,140	$33,890

1. Under IFRS the Corporation recognizes directory revenue when each directory is distributed to the public. This revenue was previously recognized under Canadian GAAP in accordance with the contractual terms with advertisers on a monthly basis over the life of the print directory. As a result, current assets increased $18,332,653, current liabilities decreased $2,941,951 and retained earnings increased $21,274,604.

2. In conjunction with the IFRS directory revenue recognition policy, the related publishing costs are required to be recognized when the related directory is distributed to the public. Under Canadian GAAP these expenses were previously deferred and amortized over the life of the related directory. As a result current assets and retained earnings decreased $5,192,847.

The IASB plans to make revisions to or replace existing IFRS standards that may impact these areas as well as other accounting issues. Some of the anticipated changes may be in effect prior to the Corporation's transition date, such that IFRS may differ at transition date from its current form. However, it is likely that the majority of the changes will be in effect subsequent to the date of transition; with the result that the impact to the Corporation of adopting IFRS will extend beyond its transitional year.

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INDEPENDENT AUDITORS' REPORT

To The Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying consolidated financial statements of DirectWest Corporation which comprise the consolidated statement of financial position as at December 31, 2010, the consolidated statements of operations and comprehensive income, deficit and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DirectWest Corporation as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

February 3, 2011

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Consolidated Statement of Operations and Comprehensive Income

For the year ended December 31, Thousands of dollars	2010	2009
Gross revenue	$44,531	$43,119
Cost of sales	6,731	6,999
Gross profit	37,800	36,120
Operating expenses	32,386	30,925
Depreciation and amortization	304	313
	32,690	31,238
Income from operations	5,110	4,882
Interest income	273	434
Interest costs	(32)	(19)
Income before the following	5,351	5,297
Gain on disposal of specialty publications division assets (Note 3)	1,533	-
Gain on redemption of preferred shares	795	-
Income from continuing operations	7,679	5,297
Loss from discontinued operations	-	(1,809)
Net income	7,679	3,488
Other comprehensive income	-	-
Comprehensive income	$7,679	$3,488

See accompanying notes

Consolidated Statement of Deficit

For the year ended December 31, Thousands of dollars	2010	2009
Deficit, beginning of year	$(5,492)	$(980)
Net income	7,679	3,488
	2,187	2,508
Dividends	(9,200)	(8,000)
Deficit, end of year	$(7,013)	$(5,492)

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, Thousands of dollars	2010	2009
Assets		
Current assets		
Cash and short-term investments (Note 4)	**$11,799**	$9,449
Accounts receivable (Note 11a)	**2,194**	2,342
Inventories (Note 5)	**241**	221
Prepaid publishing costs	**5,638**	5,655
Prepaid expenses	**165**	133
Current assets of discontinued operations	**-**	43
	20,037	17,843
Investment – preferred shares	**-**	2,706
Property, plant and equipment (Note 6)	**435**	544
Intangible assets – finite-life (Note 7)	**56**	9
Goodwill (Note 3)	**222**	226
	$20,750	$21,328
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 11a)	**$1,174**	$1,165
Dividends payable	**9,200**	8,000
Deferred revenue	**3,084**	3,088
Current liabilities of discontinued operations	**-**	262
	13,458	12,515
Long-term debt (Note 8)	**4,868**	4,868
	18,326	17,383
Shareholder's equity		
Share capital and contributed surplus (Note 9)	**9,437**	9,437
Deficit	**(7,013)**	(5,492)
	2,424	3,945
	$20,750	$21,328

See accompanying notes

On behalf of the Board:

Ron Styles

Mike Anderson

Consolidated Statement of Cash Flows

For the year ended December 31, Thousands of dollars	2010	2009
Operating activities		
Income from continuing operations	**$7,679**	$5,297
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**304**	313
Interest income	**(231)**	(403)
Gain on disposal of specialty publications division assets	**(1,533)**	-
Gain on redemption of preferred shares	**(795)**	-
Other	**1**	8
Net change in non-cash working capital (Note 11b)	**(496)**	369
Cash provided by operating activities	**4,929**	5,584
Investing activities		
Property, plant and equipment expenditures	**(151)**	(86)
Intangible assets – finite-life expenditures	**(114)**	(18)
Redemption of preferred shares	**3,733**	-
Proceeds from disposal of specialty publications division assets	**1,953**	-
Cash provided by (used in) investing activities	**5,421**	(104)
Financing activities		
Dividends	**(8,000)**	(3,000)
Cash used in financing activities	**(8,000)**	(3,000)
Increase in cash from continuing operations	**2,350**	2,480
Increase in cash from discontinued operations	**-**	417
Cash and short-term investments, beginning of year	**9,449**	6,552
Cash and short-term investments, end of year	**$11,799**	$9,449
Comprised of:		
Bank indebtedness	**$(76)**	$(497)
Short-term investments	**11,875**	9,946
	$11,799	$9,449

See accompanying notes

Notes to the Consolidated Financial Statements

Note 1 – The Corporation

DirectWest Corporation (the Corporation) is incorporated under the *Canada Business Corporations Act* and is wholly owned by Saskatchewan Telecommunications Holding Corporation (Holdco) through its subsidiary SaskTel Investments Inc. The Corporation markets and supplies print, on-line and mobile telephone directories, internet advertising, and marketing solutions in Saskatchewan.

The financial results are included in the consolidated financial statements of Holdco, a Saskatchewan Provincial Crown corporation. By virtue of its ownership structure, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Significant accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

Subsidiaries

The consolidated financial statements include the accounts of the Corporation and its wholly owned, non-operating subsidiaries DirectWest Canada, Inc. and Qu'Appelle Holding, Inc. with all significant intercompany transactions and balances being eliminated.

Cash and short-term investments

Cash and short-term investments represent interest bearing investments with Holdco and financial institutions that are due on demand and are stated at fair value.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Prepaid publishing costs

The Corporation defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the related publication. The Corporation assesses recoverability of these costs with reference to expected future revenues from the related directories, those costs not considered recoverable are charged to income. Indirect costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

Asset	Estimated useful life
Office furniture, equipment and leaseholds	3-10 years

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

Assets held for sale and discontinued operations

Long-lived assets are classified as held for sale when certain criteria are met, which include: the Corporation's commitment to a plan to sell the assets; the assets are available for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

The Corporation measures assets held for sale at the lower of carrying amount or fair value less cost to sell. These assets are not depreciated or amortized.

A component of the Corporation that is held for sale is reported as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of a disposal transaction and the Corporation will not have a significant continuing involvement in the operations of the component after the disposal transaction.

Intangible assets - finite-life

Finite-life intangible assets are recorded at cost of acquisition. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

Asset	Estimated useful life
Software	1 year

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations and comprehensive income.

Notes to the Consolidated Financial Statements

Note 2 – Significant accounting policies, continued

Revenue recognition

Revenues are earned through the sale of print and electronic telephone directory advertising, on-line and mobile advertising and advertising in specialty publications. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory or electronic directory advertising commencing with the delivery or display date, respectively. Amounts billed up front for directory advertising are deferred and recognized over the corresponding life of the related directory.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet, except for equity investments that do not have a quoted market price in an active market, in which case the equity instrument is measured at cost. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of accounts receivable and underlying provision for bad debts, property, plant and equipment and underlying estimations of useful lives of depreciable assets, intangible assets, goodwill, and prepaid publishing costs and underlying estimates of future cash flows. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Gain on disposal of specialty publications division assets

Effective October 31, 2010 the Corporation sold the assets of the specialty publications division for cash consideration of $1,952,785 resulting in a gain of $1,532,801. Included in these assets was goodwill of $3,699.

Note 4 – Cash and short-term investments

Short-term investments represent funds invested with Holdco at an interest rate of 1.05% (2009 – 0.28%).

Notes to the Consolidated Financial Statements

Note 5 – Inventories

During the year, $1,201,162 of inventories (2009 - $1,147,857) were recognized as cost of goods sold. There was no write-down of inventories and no reversals of any prior period write-down during 2010.

Note 6 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
Thousands of dollars			**2010**	2009
Office furniture, equipment and leaseholds	**$2,410**	**$1,975**	**$435**	$544

Depreciation and amortization for the year totaled $238,036 (2009 - $269,834).

Note 7 – Intangible assets – finite life

	Cost	Accumulated amortization	Net book value	
Thousands of dollars			**2010**	2009
Software	**$3,390**	**$3,334**	**$56**	$9

Amortization for the year totaled $65,671 (2009 - $42,770).

Note 8 – Long-term debt

The balance represents amounts due to Holdco which are unsecured and bear interest at the Holdco's average borrowing rate of 0.67% (2009 – 0.40%), with no fixed repayment terms.

Note 9 – Share capital and contributed surplus, and additional capital disclosures

a) Share capital and contributed surplus

Thousands of dollars	**2010**	2009
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 100 shares	**$-**	$-
Contributed surplus	**9,437**	9,437
	$9,437	$9,437

Notes to the Consolidated Financial Statements

Note 9 – Share capital and contributed surplus, and additional capital disclosures, continued

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

The Corporation monitors capital on the basis of approved budgets and forecasts, and required funding for the Corporation.

The Corporation's strategy, which is to maintain sufficient cash for the continued development of targeted markets, is unchanged from 2009.

The Corporation is not subject to any externally imposed capital requirements.

Note 10 – Commitments and contingencies

Commitments

The Corporation is committed to future minimum payments under operating leases in each of the next five years as follows:

Thousands of dollars	
2011	$349
2012	316
2013	245
2014	140
2015	-

The above payments include $123,026 for leases with related parties.

Contingencies

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's financial position or results of operations.

Notes to the Consolidated Financial Statements

Note 11 – Additional financial information

a) Balance sheet

Thousands of dollars	2010	2009
Accounts receivable		
Customer accounts receivable	**$2,105**	$2,260
Accrued receivables - customer	**25**	34
Allowance for doubtful accounts	**-**	(10)
	2,130	2,284
Other	**64**	58
	$2,194	$2,342
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$429**	$443
Payroll and other employee-related liabilities	**745**	660
Other	**-**	62
	$1,174	$1,165

b) Supplementary cash flow information

Thousands of dollars	2010	2009
Net change in non-cash working capital		
Accounts receivable	**$(218)**	$399
Inventory	**(20)**	(28)
Prepaid publishing costs	**17**	178
Prepaid expenses	**(35)**	(7)
Accounts payable and accrued liabilities	**(236)**	(75)
Deferred revenue	**(4)**	(98)
	$(496)	$369
Interest paid	**$32**	$19

Note 12 – Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, dividend payable and long-term debt which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information,

Notes to the Consolidated Financial Statements

Note 12 – Financial instruments, continued

aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

Thousands of dollars		2010		2009	
Financial Instruments	Classification[1]	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets					
Cash and short-term investments	HFT	**$11,799**	**$11,799**	$9,449	$9,449
Accounts receivable	LAR	**2,194**	**2,194**	2,342	2,342
Investment – preferred shares	AFS	**-**	**-**	2,706	2,706
Financial liabilities					
Accounts payable and accrued liabilities	OL	**$1,174**	**$1,174**	$1,165	$1,165
Dividend payable	OL	**9,200**	**9,200**	8,000	8,000
Long-term debt	OL	**4,868**	**4,868**	4,868	4,868

[1] Classification details are:
AFS – available for sale
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

Determination of fair value

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and dividend payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgement and is based on market information where available and appropriate. Accordingly, fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 - Where quoted prices are readily available from an active market.
Level 2 - Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

Thousands of dollars	**Level 1**	**2010 Level 2**	**Total**	Level 1	2009 Level 2	Total
Long-term debt	**$-**	**$4,868**	**$4,868**	$-	$4,868	$4,868

Notes to the Consolidated Financial Statements

Note 12 – Financial instruments, continued

b) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers, however the risk has been assessed as minimal and therefore is not actively managed.

c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments, short-term obligations and long-term debt. The most significant of these is interest rate risk related to the floating rate short-term investments and floating rate term debt and the issuance of long-term debt. However, assuming all other variables remained constant at December 31, 2010, a 10% (11 basis point) increase or decrease in interest rates would not have a material impact on net income.

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Corporation's long-term debt was 0.67% (2009 – 0.40%) as was the average interest rate.

d) Market risk

The Corporation is exposed to market risk on short-term investments. Fair value adjustments will fluctuate based on changes in market prices, however the fluctuations should not be significant due to the short term nature of the investments.

e) Credit risk

The Corporation is exposed to credit risk through its short-term investments and accounts receivable. Credit risk related to short-term investments is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary, in addition, pursuant to an agreement with Saskatchewan Telecommunications (SaskTel), the Corporation mitigates its credit risk from the Saskatchewan directories, by selling its receivables to SaskTel for a fee.

The carrying amount of financial assets represents the maximum credit exposure as follows:

Thousands of dollars	**2010**	2009
Cash and short-term investments	**$11,799**	$9,449
Accounts receivable	**2,194**	2,342
Investment – preferred shares	**-**	2,706
	$13,993	$14,497

Notes to the Consolidated Financial Statements

Note 12 – Financial instruments, continued

The aging of customer receivables, which indicates potential impairment losses, is as follows:

Thousands of dollars	**2010**	2009
Current	**$2,101**	$2,169
30-60 days past billing date	**4**	67
61-90 days past billing date	**-**	17
Greater than 90 days past billing date	**-**	7
Total	**$2,105**	$2,260

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

Thousands of dollars	**2010**	2009
Allowance for doubtful accounts, opening balance	**$10**	$29
Accounts written off	**-**	(25)
Recoveries	**(10)**	-
Provision for losses	**-**	6
Allowance for doubtful accounts, closing balance	**$-**	$10

f) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments, all of which are due within two years of the respective year ends:

December 31, 2010

Thousands of dollars	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years
Long-term debt	$4,868	$4,932	$16	$16	$4,900
Accounts payable and accrued liabilities	1,174	1,174	1,174	-	-
Dividend payable	9,200	9,200	9,200	-	-
	$15,242	$15,306	$10,390	$16	$4,900

December 31, 2009

Thousands of dollars	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years
Long-term debt	$4,868	$4,906	$9	$10	$4,887
Accounts payable and accrued liabilities	1,165	1,165	1,165	-	-
Dividend payable	8,000	8,000	8,000	-	-
	$14,033	$14,071	$9,174	$10	$4,887

Notes to the Consolidated Financial Statements

Note 12 – Financial instruments, continued

Sufficient operating cash flows are expected to be generated to fund these contractual obligations. In addition, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows.

Note 13 – Related party transactions

Included in these financial statements are transactions with Holdco and its subsidiaries, various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

Thousands of dollars	**2010**	2009
Revenues	**$2,667**	$2,371
Operating expenses	**20,767**	20,145
Interest income	**39**	31
Interest expense	**32**	19
Accounts receivable	**2,095**	1,968
Property, plant and equipment	**4**	2
Accounts payable and accrued liabilities	**137**	159

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 14 – Comparative figures

Certain of the 2009 figures have been reclassified to conform to the current year's presentation.